Relocation Benefits for Postal Service Officers

April 20, 2000

FR-FA-00-010

United States Postal Service
Office of Inspector General

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OFFICE OF INSPECTOR GENERAL

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POSTMASTER GENERAL

SUBJECT: Relocation Benefits for Postal Service Officers (Report Number FR-FA-00-010)

This is the first in a series of reports examining relocation and other benefits of Postal Service executives. The audit was conducted at the request of both the Chairman of the House Subcommittee on the Postal Service and the Board of Governors in response to an anonymous complaint. The complaint alleged two Postal Service officers obtained relocation benefits for changes in residence within the local commuting area. Our overall objective was to determine the validity of the allegations. We will address the overall relocation program and other officer benefits in subsequent reports.

The Postal Service allows the payment of relocation benefits to officers who change official duty stations. Deviations from the relocation policy can be approved if the move is in the best interest of the Postal Service. The postmaster general has authorized the chief financial officer to administer relocation benefits and approve deviations. During fiscal year 1998, there were 45 officers in the Postal Service.

Background

In 1998 the postmaster general extended an offer of promotion to the controller to become the chief financial officer. The controller requested three benefits, one of which was relocation within the local commuting area, as incentive to accept the promotion. The Compensation Committee of the Board of Governors reviewed two of the three requested benefits, but did not review the relocation benefit of about $142,000 which was approved by the postmaster general. The Board of Governors disapproved

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two benefits that totaled less than the relocation benefits approved by the postmaster general.

The other move occurred because the promotion of the controller created a vacancy that was offered to another officer. The other officer requested two benefits before accepting the offer, one of which was relocation within the local commuting area. The new chief financial officer approved relocation benefits of about $106,000 after consulting with the postmaster general. Second, the officer requested continued participation in the Shared Real Estate Appreciation Loan program, a program established in 1989 to offset increased mortgages when moving to high cost areas. As a result, this officer was able to purchase a home that cost about $75,000 more than his prior residence without an increase in mortgage payment.

The new residence of the chief financial officer was about 15 miles from his previous residence, reducing the officer's daily one-way commute by about 2.5 miles. The new residence of the controller was about 22 miles from his previous residence, reducing his daily one-way commute by about 20 miles. Table 1 summarizes the distances moved by each officer.

Table 1.
Distances Moved[1]

	Prior Address	Current Address	Difference	Distance Between Residences
CFO				
City	Fairfax	Vienna		
State and Zip Code	VA 22032-3252	VA 22182-2101		
Miles to Duty Station from Residence	19.2	16.7	**2.5 Miles**	**15 Miles**
Minutes to Duty Station from Residence	30	29	**1 Minute**	
Controller				
City	Fairfax	Alexandria		
State and Zip Code	VA 22030-7254	VA 22314-6208		
Miles to Duty Station from Residence	26	6	**20 Miles**	**22.4 Miles**
Minutes to Duty Station from Residence	40	10	**30 Minutes**	

[1] The miles and minutes were obtained from http://www.mapquest.com and may vary depending on traffic and road conditions.

Objective, Scope, and Methodology

To address the validity of the allegations, we determined whether: (1) relocation benefits were paid in accordance with applicable laws and regulations; (2) controls over relocation decisions were adequate; and (3) relocations were in the best interest of the Postal Service.

To accomplish our objectives we:

- Reviewed Postal Service relocation policies, procedures, and documentation associated with the two relocations.
- Interviewed appropriate Postal Service officials.
- Reviewed Internal Revenue Service guidelines for relocation.
- Compared the Postal Service relocation policy with those of selected Fortune 500 Corporations.
- Contacted independent relocation organizations.

We conducted the audit between January and April 2000 in accordance with generally accepted government auditing standards, and included tests of internal controls as were considered necessary under the circumstances.

Relocation Benefits Paid

The audit revealed that two officers, who were promoted but did not change duty stations, received relocation benefits of about $248,000 for moves within the local commuting area. As shown in Table 2 below, these benefits included payment for the transportation and storage of household goods, sale of the old residence, purchase of the new residence, miscellaneous items, and related federal, state, and local taxes.

Table 2.
Relocation Benefits Paid

Expense Type	CFO	Controller	Total
Transportation of Household Goods/Storage Expense	$12,075	$7,256	$19,331
Qualified Expenses – Selling/Buying/Leasing	37,275	31,573	68,848
Miscellaneous Expenses	25,000	25,000	50,000
Withholding Tax Allowance	28,961	24,455	53,416
Relocation Income Tax Allowance	39,000	17,533	56,533
Total	$142, 311	$105,817	$248,128

The relocations were paid as part of an incentive plan and approved as deviations from postal policy, in accordance with the PCES Relocation Policy (Handbook F-11). Although the relocations did not meet the 50-mile distance requirement of the relocation policy, the policy provides that deviations can be granted when it is in the best interest of the Postal Service. For example, postmasters are sometimes moved distances significantly less than 50 miles so that they can live in the same communities as they work.

Because one of the officers requesting relocation was normally the approving official, the issue was brought to the postmaster general for approval. In granting the deviations, the postmaster general consulted with the Law Department and the Secretary to the Board of Governors.

Controls Over Incentive Plans

Controls were not in place to ensure that the Board of Governors approved significant provisions of incentive plans such as relocation benefits. The Compensation Committee is a standing committee that is responsible for considering and making recommendations to the Board of Governors on salaries, incentive plans, and other compensation paid to officers. Approval was generally not obtained from the Board of Governors by the Postal Service for relocation of officers because the Law Department had determined that relocation benefits were not considered compensation.

However, it was clear from the interviews with the postmaster general and the officers involved that the payments were made as part of an incentive plan to entice the officers to accept their new positions and to retain highly qualified executives. Both officers indicated they had no other job offers pending when the promotion offers were made and that their acceptance was based on approval of an incentive plan. Further, the postmaster general recognized the relocation requests were potentially controversial and referred the decision to the Secretary of the Board of Governors after a legal review.

The Compensation Committee reviewed the compensation of the chief financial officer, but the Secretary decided not to disclose to the Board of Governors that relocation payments were part of the incentive plan. The Secretary believed management had the authority to approve the relocation if it was beneficial to the Postal Service. He further instructed such actions should not be based on an officer's desire to move; but it should be based on the benefit to the Postal Service. Because both requests were initiated by the officers and did not meet the 50-mile criteria, the Secretary should have followed up to ensure that the conditions for granting deviations were met. However, the Secretary did not request written justification for why the relocations were in the best interest of the Postal Service.

The Board of Governors should also have been informed of the decision to authorize additional shared real estate appreciation for the controller. A shared appreciation loan enables a qualified officer to offset increased mortgage costs on a residence. This is accomplished when the Postal Service officer agrees to roll over any equity from a prior residence to the purchase of a new residence, and the Postal Service agrees to absorb any increase in the overall cost of the home and hold the mortgage. When the home is sold, the Postal Service is entitled to a return of its equity interest and to share in any appreciation.

This benefit allows postal officers to relocate to high cost areas without changing their standard of living. The controller received a shared appreciation loan of $333,000 from the Postal Service—an increase of $37,000 over the previous loan. Consequently, the Postal Service owned about 36 percent of the controller's home. As a result, the controller was able to purchase a home that cost about $75,000 more than the prior residence while reducing his mortgage payment as shown in Table 3. In addition, the Postal Service paid for the move by incurring relocation costs of $106,000, and assuming a shared equity in the real estate of $154,000.

Table 3.
Shared Real Estate Appreciation Loan Program

	Former Shared Appreciation Loan	New Shared Appreciation Loan	Difference
Purchase Home Price	350,000	424,641	74,641
Down Payment	53,500	91,000	37,500
Amount To Be Financed	296,500	333,641	37,141
Fixed (Employee) Portion	179,400	179,400	0
Shared Appreciation Loan	117,100	154,241	37,141
Shared Percentage	33.46%	36.32%	2.86%
Monthly Principal and Interest Payment Based On Total Amount Financed	2,073	2,276	203
Employee Monthly Payment	1,254	1,224	-30
Difference	819	1,052	233
Sale Price	389,000		
Total Gain on Sale of Home	39,000		
Postal Service Gain	13,049		
Employee Gain	25,951		

While the Postal Service grants shared appreciation loans to its executives, a postal official told us that this was the first time it approved payment of this benefit for relocation within the same commuting area. For this reason, the decision to grant this benefit should have been approved by the Board of Governors and considered in conjunction with the incentive plan.

If the officer had not been approved for the shared equity program, his monthly payment would have been about $2276 rather than $1224, a monthly benefit of over $1000 per month. Generally, this is an untaxed benefit; however, because the move did not meet the Internal Revenue Service's guidelines for a qualified relocation, this benefit is considered taxable income of over $12,000 each year.

In approving the relocations, neither the postmaster general nor the Secretary to the Board of Governors was aware of how much the relocations would cost or whether the individuals would, in fact, be moving closer to work. Controls need to be established to ensure that the Board of

Governors is notified when significant payments are made to officers and that such actions are appropriate and in the best interest of the Postal Service. Further, a formal process should be established to assess the impact of incentive packages and officer compensation on public and employee perception. We could not locate any information that documented why the relocations were in the best interest of the Postal Service.

The postmaster general stated that he approved the relocation to ensure that the officers did not leave the Postal Service. The officers, however, stated they had no plans to leave at the time. They instead stated that the relocations were part of an incentive plan connected to their promotions and would enable them to spend more time at the office as opposed to commuting. But there was no evidence that the officers would not have accepted two of the most prominent and influential positions in the Postal Service without the relocations. There was also no evidence that they would be required to work longer hours than previously expected. Consequently, we could not substantiate the assertion that the relocations were in the best interest of the Postal Service.

Benchmarking

By allowing for deviations from its relocation policy, the Postal Service exceeded the relocation benefit packages offered to executives by private industry and other government agencies. We compared the Postal Service's relocation policy with that of four Fortune 500 companies and relocation agencies used by major corporations, and found that the decision to pay these relocation benefits was inconsistent with industry practices. For example, corporations we surveyed used Internal Revenue Service guidelines for allowing relocation expenses. These guidelines require the change in duty station be more than 50 miles.[2] During a period of cost cutting and rising postal rates, such payments may impact the public's confidence and trust in the Postal Service and employee confidence in management.

[2] IRS Publication 521 describes the criteria for deductibility of relocation expenses. It states that for relocation expenses to be tax deductible, the relocation must be closely related to a new or changed job location. In addition, it must meet both the distance and the time test. The relocation will meet the distance test if the new main job location is at least 50 miles farther from the former home than the old job location was from the former home.

Pay Cap

Although the Postal Service's General Counsel determined that relocation benefits should be excluded from the calculation of the statutory pay cap, payment of these benefits could be perceived as a way to circumvent the statutory limits on compensation. The total compensation of all Postal Service executives and officers is subject to the statutory cap set forth in Title 5 of the U.S.C. that applies to most appropriated federal agencies. At the time the relocation benefits were paid, the salary cap was $151,800.

Table 4.
Taxable Income Reported by the Postal Service

	CFO	Controller
Salary	$148,274	$158,567
Relocation	103,311	88,284
Total Taxable Income	251,585	246,851

The Postal Service reported about $247,000 of taxable income for the controller and about $252,000 for the chief financial officer, including salary and relocation benefits. The officers were also reimbursed for the additional taxes on relocation benefits, totaling $39,000 and $18,000, respectively.

Recommendations

We recommend the postmaster general establish policies that require:

1. Written justification that documents the reasons for relocations within the same commuting area. At a minimum, the justification should document why the move is in the best interest of the Postal Service.

2. Deviations from the officers' relocation policy be submitted to the Board of Governors' for approval, including moves that do not meet Internal Revenue Service deductibility criteria for relocation expenses.

3. All components of officer incentive plans be submitted to the Board of Governors' for approval, including significant compensation that is not subject to the statutory pay cap.

In order to ensure timely dissemination of the information contained in this report, we elected to publish without management's comments. However, we would appreciate a written response to our finding and recommendations by April 27, 2000. The response should describe the corrective actions planned or taken, including the timeframes for implementing our recommendations. When we receive management's comments, we will incorporate and include them in a summary report of relocation and other benefits.

If you have any questions, please contact John Seeba or me at (703) 248-2300.

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